ACCOUNTING REQUIREMENTS FOR GENERAL PP&E

1. Recorded cost. The recorded cost of a capitalized asset is determined based on the method of acquisition, as well as ancillary costs incurred to bring the property to a form and location suitable for its intended use.

a. **Method of acquisition**. A summary of the elements of recorded cost for the various methods of acquisition follows. Add applicable ancillary costs to the recorded cost. (See b below.)

- Purchased PP&E (new or used). Amount paid to third parties (private, commercial or government).

- Constructed PP&E. Expenses directly related to the construction of the property, including costs for project design, labor, material, work by contractors, and demolition of existing structures required to prepare the site for construction.

- Donated PP&E (including transfers from State and local governments and Indian tribes). The estimated market value at the time we acquire the asset.

- Forfeited PP&E (retained for use by the Service). The estimated market value at the time we place the asset into service.

- Capital leases. The amount recognized as a liability for the capital lease at its inception. (see discussion of leases below.)

- Leasehold improvements. The amount paid to third parties plus direct labor and other costs directly related to the improvement.

- Transferred PP&E from another Federal agency. The cost recorded in the transferring agency's accounting records net of accumulated depreciation. In cases where we cannot reasonably obtain this information, we will estimate the net book value if sufficient information is available. If net book value cannot be determined, the recorded cost is its market value at the time of transfer.

- Exchanged PP&E (with non-Federal entities). The market value of the PP&E surrendered at the time of exchange. However, if the market value of the asset acquired is more readily available, that value may be used. If the market value of either asset is not determinable, then use the net book value of the asset surrendered to record the cost of the PP&E acquired. If there is cash consideration paid or received as part of the exchange, the recorded cost of the asset should be raised (if cash paid) or lowered (if cash received) as appropriate.

b. **Ancillary costs**. Examples of ancillary costs to be added to the recorded cost of Service assets include but are not limited to:

- Transportation charges to the point of initial use.
- Handling and storage costs.
- Legal and recording fees.

2. Real Property. The following guidance relates specifically to Service real property classified as general PP&E.

a. **Land and related assets**.

- Land - defined as the solid part of the earth's surface, is considered a nonwasting asset and accordingly is not subject to depreciation. The recorded cost of land includes the purchase price, broker's commission, fees for examining and recording the title and surveying, and any razing and removal costs of structures on the land.
- Land rights - defined as interests and privileges held by the Service in land owned by others, such as leaseholds, easements, water rights, diversion rights, and other like interests in land. The costs associated with these rights are recorded as nondepreciable assets if they are for an unlimited duration. Otherwise, they are considered leases amortized over the term of the agreement.
- Improvements to land - improvements to land that are of unlimited duration – called permanent land improvements – (e.g., trails or roadbeds) are recorded as nondepreciable assets. (It is unlikely that the Service has permanent improvements to general PP&E land.) Improvements of limited duration (e.g., sewage lines and sidewalks) should be depreciated over their estimated useful life.

b. **Roads**. Capitalize paved roads and gravel roads if the general capitalization criteria are met based on cost per mile. If the total cost of a road does not exceed the capitalization threshold, it should not be capitalized, even if the cost per mile exceeds the threshold (e.g., a quarter mile road segment costing $40,000). Note, in certain locations the estimated useful life of roads is expected to be less than 2 years (e.g., Alaska). In accordance with the general capitalization criteria, these roads would be expensed.

c. **Construction work in process (CWIP)**. CWIP is a Service asset account that captures all costs incurred relating to buildings and structures currently under construction that will meet or exceed the Service's capitalization threshold for real property. A determination should be made at the beginning of each construction project as to whether or not the total cost of the project will exceed the capitalization threshold. If the project is not expected to exceed the threshold, all construction costs should be expensed in the accounting period incurred. Relevant CWIP costs include, but are not limited to:

- Surveying

- Engineering work
- Architectural and design work
- Payments to contractors
- Fixed equipment (and installation costs) attached to the structure
- Direct labor and benefits costs related to the construction, oversight of contractors, or otherwise preparing the property for use
- Direct materials and supplies used
- The fair value of donated labor, material and supplies, and other assets
- Equipment rental costs
- Applicable portion of owned equipment used on the project (e.g., depreciation incurred during use)
- Legal and recording fees
- Demolition costs if planned as part of the purchase of the property

Once a construction project is completed, it will be transferred to the appropriate general PP&E account. Construction will be considered completed when it is beneficially occupied, or otherwise is available for use, even though not all requirements attendant to the construction project have been fulfilled, such as receipt of a certificate of occupancy, closeout of construction contracts, or final payments to contractors.

d. **Improvements to existing real property assets**. Costs for additions and improvements to existing real property assets are defined as those that either extend the useful life of the asset, or enlarge or improve its capacity. The cost of an addition or improvement to an existing Service asset that equals or exceeds the capitalization threshold for the asset should be capitalized and depreciated/amortized over the remaining useful life of the asset. The impact of an addition or improvement on the asset's useful life (if any) should be estimated, and the remaining useful life extended as appropriate. In situations where it is difficult to estimate the impact of the improvement on the associated asset, or the asset is already substantially or fully depreciated, the improvement may be depreciated over a standard period equal to one half of the estimated useful life for that asset type. If the improvement does not meet the capitalization threshold for that type of property, it will be expensed in the period the cost of the improvement was incurred.

e. **Maintenance and repair costs**. If expenditures relating to a real property asset do not extend the useful life or increase the capacity of the asset, they should not be capitalized, regardless of whether the cost equals or exceeds the capitalization threshold. These costs are considered maintenance and repair costs and are considered operating expenses in the period incurred.

f. **Replacement of components of real property assets**. Replacement of components of real property facilities may be considered repairs or improvements depending on the intent of the replacement. If a component (e.g., a roof) is replaced because it is no longer performing its intended function efficiently, then the replacement is considered a repair for accounting purposes, and the repair costs are expensed. Conversely, if the replacement is undertaken to improve or expand the efficiency of an asset that is in good working order (e.g., replacing a 5-year-old shingle roof with a slate roof), then the replacement is considered an improvement. If the net book value of the replaced asset is available, then the accounts should be appropriately adjusted to remove that value. If only a portion of an asset is being replaced and/or the replaced component is not separately identifiable in the accounting records, then this adjustment is not necessary.

g. **Leases**. A lease is an agreement conveying the right to use PP&E, usually for a stated period of time. For accounting purposes, leases are classified as either capital or operating based on specific criteria. Capital leases are contracts or agreements for PP&E that possess the characteristics of a purchase. SFFAS Number 5 defines a capital lease as one which transfers substantially all the benefits and risks of ownership to the lessee, and sets out four specific conditions for determining whether or not a lease should be classified as a capital lease. FWS Form 3-2251 (Determination of Capital versus Operating Leases) is a worksheet for determining whether a lease is a capital lease or operating lease. Include this form in the files of all Service leases.

- <u>Accounting for capital leases</u>. A capital lease is recorded as a liability calculated at the present value of the rental and other lease payments during the lease term, excluding executory costs paid by the lessor. A corresponding amount should be recorded as the value of the asset in PP&E. However, if the fair value of the leased property is less than the calculated cost, that value should be used to record the asset and liability for the lease. Capital leases that do not exceed the capitalization threshold should be treated as operating leases.

- <u>Accounting for operating leases</u>. An operating lease is recorded as an operating expense over the duration of the lease term.

h. **Leasehold improvements.** Leasehold improvements are improvements paid for by the Service to property it leases from others (e.g., buildout costs in leased office buildings). If the cost of these improvements exceeds the capitalization threshold, they should be capitalized and amortized. If the improvement is to a capital lease, the amortization period will be the term of the lease. It the improvement is to an operating lease, the improvement will be amortized over 20 years or the expected duration of the lease, whichever is less.